

Service Date: June 8, 1983

DEPARTMENT OF PUBLIC SERVICE REGULATION  
BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MONTANA

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IN THE MATTER OF The Application	)	UTILITY DIVISION
Of PACIFIC POWER AND LIGHT	)	
COMPANY For Authority To Increase Rates	)	DOCKET NO. 82.9.60
And Charges For Water Service To Its	)	
Customers In Its Libby, Montana Service Area.	)	ORDER NO. 4946a

APPEARANCES

FOR THE APPLICANT:

Cal Robinson, Attorney-at-Law, Murphy, Robinson, Heckathorn & Phillips, One Main Building, Kalispell, Montana 59901

Nancy Ganong, Attorney-at-Law, Stoel, Rives, Boley, Fraser and Wyse, 900 S.W. Fifth Avenue, Portland, Oregon 97204.

FOR THE INTERVENOR:

James C. Paine, Montana Consumer Counsel, 34 West Sixth Avenue, Helena, Montana 59620.

FOR THE COMMISSION:

Opal Winebrenner, Staff Attorney, 1227 - 11th Avenue, Helena, Montana 59620

BEFORE:

Howard Ellis, Commissioner, Presiding  
Clyde Jarvis, Commissioner  
Danny Oberg, Commissioner

BACKGROUND

1. On September 9, 1982, Pacific Power and Light Company (Applicant or PP&L) filed an application with this Commission for authority to increase rates and charges for water

service at Libby, Montana. The Applicant requested an average increase of approximately 47%, which constitutes an annual revenue increase of approximately \$187,730.

2. Concurrent with its filing for a permanent increase in rates, PP&L filed an application for an interim increase in rates of approximately 20% equaling a revenue increase of approximately \$79,882.

3. On November 8, 1982, the Commission having considered the data filed with the Applicant's interim application, issued Order No. 4946 granting the Applicant interim rate relief in the amount of \$79,882 annually.

4. On March 29, 1983, pursuant to notice of public hearing, a hearing was held in the Courthouse, County Annex Building, Libby, Montana. The purpose of the hearing was to consider the merits of the Applicant's proposed water rate adjustment.

5. Libby residents attending the public hearing were concerned that other residents had not been sufficiently informed of the hearing, so all parties to the Docket agreed to allow people to file written statements within two weeks after the close of the hearing. The Commission received 18 letters and a petition from Libby area customers. The responses were opposed to PP&L's proposed rate increase generally citing that the Libby area is economically depressed, the problems of fixed income people, the browning of Libby due to high sprinkling rates, and the fact that the Libby water system is gravity fed.

#### ANALYSIS AND FINDINGS OF FACT

6. The Applicant presented the testimony and exhibits of the following witnesses:

Wayne Goin, Division Manager

James T. Watson, Controller

Colleen Lynch, Cost of Service Analyst

Norma Howery, Senior Rate Analyst

7. The Montana Consumer Counsel presented the testimony of six public witnesses at the hearing, and sponsored MCC Exhibit No. 1, a petition opposing the rate increase request signed by 17 Libby system subscribers. The testimony of these witnesses was generally in opposition to the rate increase, and also focused on the area's economic condition, the fact that the system is gravity-flow, effect of rate increases on fixed income customers, maintenance

policies, and effect of sprinkling rate increases on lawns and gardens.

8. The test year ending September 30, 1981, was uncontested and is found by the Commission to be a reasonable period within which to measure Applicant's utility revenues, expenses and returns for the purpose of determining a fair and reasonable level of rates for water service.

9. As a preliminary matter the Applicant's attorney, Nancy Ganong, offered into evidence a proposed settlement of issues entered into between PP&L and the Montana Consumer Counsel. This proposed settlement indicates that both parties accept the revenue requirement reflected in Exhibit 8-L and that this revenue requirement was calculated in a manner consistent with the Findings of Fact in Order No. 4928a, Docket No. 82.4.28, issued January 25, 1983, the Company's most recent Montana electric rate case. The proposed settlement also provides for the acceptance of Exhibits 3L and 3L-T, the exhibits and proposed testimony of Dan M. Hilderbrand, as evidence in this docket.

The Applicant and the Montana Consumer Counsel also agreed to the acceptance of the revenue requirement determined by the Commission in its Interim Rate Order No. 4946 and requested the rates approved in that order be made permanent.

10. The Libby water utility is one of a number of regulated utilities within the corporate structure of PP&L, therefore, certain issues impacting ratemaking standards for the water utility have been addressed in prior Commission decisions (Order No. 4928a). By entering into a proposed settlement of issues, the parties alleviate the need for redundant testimony on issues such as, but not limited to, capital structure, cost of debt, cost of equity, and composite cost of total capital. By accepting the Commission's findings from the Applicant's most recent Montana electric rate case, the Consumer Counsel and the Applicant have achieved resolution of issues, impacting the water utility, that have been previously addressed by the Commission in Order No. 4928a.

#### Rate Base

11. The Applicant, in its application, proposed an average original cost depreciated rate base of \$1,681,792. Pursuant to the proposed settlement of issues, entered into between the Applicant and the Montana Consumer Counsel, the Applicant agreed to incorporate rate base adjustments from Order No. 4928a (Findings of Fact Nos. 27-43) that impacted the water utility. The Applicant presented a revised average original cost depreciated rate base of \$1,667,641 after

calculating it in a manner consistent with Order No. 4928a. The Commission finds the revised average rate base presented by the Applicant to be appropriate.

#### Capital Structure and Associated Costs

12. The Applicant, in its application, proposed the following capital structure and associated costs:

Description	Target Capital Structure	Cost Rates	Weighted Cost
Long Term Debt	50.9%	9.59%	4.88%
Preferred Stock	11.8	10.98	1.20
Deferred Taxes	2.0	-	-
Common Equity	35.3	17.50	6.18
Weighted Total	100.0%		12.35%

Subsequent to the original filing, and as part of the proposed settlement of issues agreement with the Montana Consumer Counsel, the Applicant agreed to acceptance of the capital structure and associated costs determined in Order No. 4928a (Findings of Fact 10-18).

13. The Commission finds the capital structure and associated costs determined in Order No. 4928a are appropriate for the Libby water utility. The fact that it is one of a number of regulated utilities within the corporate structure of PP&L means that it would have the identical capital structure and associated costs as those outlined in Order No. 4928a (Findings of Fact 10-26).

14. The Commission finds the following capital structure and cost of capital to be appropriate:

Description	Capital Structure	Cost	Weighted Cost
Long Term Debt	55.3%	9.25%	5.12%
Preferred Stock	13.8	9.94	1.37
Common Equity	30.9	14.50	4.48
Overall Cost of Capital	100.0%		10.97%

#### Operating Revenue

15. The test period operating revenues are not a contested issue in this case. The Applicant utilized a 12 month period ended September 30, 1981, to determine test year

revenues under the rates which became effective April 14, 1981. Total test year revenues of \$400,213, as calculated by the Applicant, are accepted by the Commission.

#### Operating Expenses

16. Consistent with the proposed settlement of issues, entered into by the Applicant and the Consumer Counsel, the following proforma expenses reflecting adjustments from Order No. 4928a (Findings of Fact 53-77), impacting the water utility, were accepted as appropriate at the 10.97% rate of return.

Operation and Maintenances Expenses	\$188,993
Depreciation Expense	\$ 39,458
Taxes Other Than Income	\$ 48,026
State Income Tax	\$ 6,873
Federal Income Tax @ 46%	\$ 43,679
Investment Tax Credit	(39,311)
Deferred Income Taxes	(101)
Income Taxes Deferred in Prior Years	(285)
Investment Tax Credit Adjustment	\$ 19,655
 Total Operating Revenue Deductions	 \$306,987

The Commission finds total operating revenue deductions of \$306,987, agreed to by Applicant and Consumer Counsel, to be the proper amount.

17. Operating Income is found to be \$93,226

Operating Revenue	\$400,213
Operating Deductions	\$306,987
 Operating Income	 \$ 93,226

#### Revenue Requirement

18. Rate Base	\$1,667,641
Rate of Return	10.97%
 Return Requirement	 \$182,941
Adjusted Balance Available	
For Return	\$ 93,226
Revenue Deficiency	\$ 89,715

In order to produce a return of 10.97% on the Applicant's average original cost depreciated rate base, the Applicant will require additional annual revenues in the amount of \$89,715 from its Libby, Montana water utility.

19. Although the Applicant has demonstrated a need for additional annual revenues in the amount of \$89,715, it has agreed to limit the revenue increase to \$79,882 which is the revenue increase granted by this Commission in Interim Rate Order No. 4946.

#### Rate Design

20. There was considerable discussion on the record relative to the rate structure proposed by the Applicant. The main focus of this discussion was the proposed rate structure for residential consumers connected to the water system.

21. The record indicates that under the present residential rate structure, which is the structure the Applicant proposes to perpetuate, the Applicant assesses a minimum monthly charge that allows for 5,000 gallons of consumption. It is also reflected on the record that this minimum charge assessment accounts for approximately 88% of the total revenues generated by this customer class.

22. There was also discussion on the record relative to the Applicant's assessment of a minimum annual bill for seasonal consumers that includes 5,000 gallons of consumption monthly. While the Commission questions the propriety of including 5,000 gallons of monthly consumption in the annual bill, there is not sufficient information on the record to allow modification of this assessment. The Commission recognizes that a need does exist for an annual assessment against seasonal consumers because equity would dictate that year-long customers should not carry the revenue burden for maintaining service availability for recreational dwellings.

23. Findings would indicate that the Applicant may have a rate structure in effect that places an unfair revenue burden on low volume consumers, therefore, the Commission finds that in the next general rate increase proceeding before this Commission the Applicant should present sufficient information to support any proposed rate structure.

24. The Commission finds the rate structure presently in effect and approved in Interim Order No. 4946 should be made permanent.

#### Miscellaneous

25. The public testimony in this docket relative to the assessment of a minimum annual charge would indicate that the Applicant has made this assessment applicable to all consumers connected to its water system and the rendering of the minimum annual charge bill is not being done in May of each year as specified in the tariff.

The Applicant during the course of testimony indicated that it was not adhering to the tariff provision that requires the rendering of the minimum annual charge bill during the month of May. The Applicant stated that instead of rendering the bill on an annual basis it was billing all consumers, whose provision of service falls under this tariff requirement, on a monthly basis unless discontinuance of service was requested. The Commission is of the opinion that the Applicant's tariff requirement relative to the assessment of the minimum annual charge bill should be modified to conform with the procedure actually being used by the Applicant to collect the charge.

The Applicant explained that it believes that all consumers connected to the water utility are responsible for payment of a minimum annual charge equal to twelve times the minimum monthly charge, if discontinuance of service is requested. The Commission, in Docket No. 6767, Order No. 4794, gave the Applicant authorization to assess a minimum monthly charge to seasonally occupied dwellings, because, the Commission was ". . . of the opinion that it (the charge) is equitable in that it minimizes the revenue burden on year-long customers of maintaining service availability for recreational dwellings." The Commission did not intend that order to authorize the Applicant to assess a minimum annual charge applicable to all consumers. Rather Order No. 4704 was an effort to insure that consumers of a seasonal nature, i.e., those consumers who spend summer months in Montana and winter months elsewhere, were contributing their fair share for the maintenance of adequate utility service.

The Commission finds that the Applicant has been misinterpreting the authorization granted in Order No. 4704 relative to the assessment of the minimum annual charge, in that, it is not applicable to all consumers connected to the water system but limited to those consumers of seasonally occupied dwellings only. The Commission further finds that the Applicant should adopt a definition for seasonally occupied dwellings and limit assessment of the minimum annual charge to those consumers only. (The Applicant may wish to look at the Commission Rule 38.5.2505(2C) and modify it to the extent that any consumer requesting reconnection within eight months of discontinuance shall be liable for payment of a minimum annual charge equal to 12 times the monthly minimum).

26. It was brought to the Commission's attention during the course of the hearing that the Applicant did not have in place a program for testing the accuracy of meters. Pursuant to Commission Rule 38.5.2513, ARM, all privately-owned water utilities are required to test five

percent of all of their meters yearly for accuracy. The Commission finds that the Applicant should implement a meter testing program, and submit a written report to the Commission within six months of the service date of this order stating that the program has been implemented and that the required 5% of the meters have been tested.

#### CONCLUSIONS OF LAW

1. The Montana Public Service Commission properly exercises jurisdiction over the parties and subject matter in this proceeding. Section 69-3-102, MCA.
2. The Commission afforded all parties interested in this proceeding proper notice and an opportunity to participate. Section 69-3-303, MCA.
3. The rates approved herein are reasonable, just and proper. Section 69-3-201, MCA.

#### ORDER

THEREFORE, THE MONTANA PUBLIC SERVICE COMMISSION ORDERS THAT:

1. Pacific Power and Light Company shall file rate schedules which reflect an increase in annual revenues of \$79,882 for its Libby, Montana service area. These revenues are in lieu of and not in addition to the revenues granted in this Commission's Order No. 4946.
2. Pacific Power and Light Company in its next general rate proceeding before this Commission shall file sufficient data to support the rate structure proposed in that filing, particularly as concerns the Company's minimum monthly charges and the allowances for minimum gallons of consumption.
3. The rates and rate structure approved for Pacific Power and Light Company's Libby service area in Interim Order No. 4946 are hereby made permanent.
4. Pacific Power and Light Company shall file tariff sheet modifications concerning its assessment of a minimum annual charge as provided herein.
5. Pacific Power and Light Company shall implement a meter testing program as provided herein and submit a report to the Commission within six months of the service date of this order, stating that the program has been implemented and the required 5% of the meters have been tested.

DONE IN OPEN SESSION at Helena, Montana this 3rd day of June, 1983 by a 3-0 vote.



BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION.

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Howard L. Ellis, Commissioner

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Clyde Jarvis, Commissioner

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Danny Oberg, Commissioner

ATTEST:

Madeline L. Cottrill  
Commission Secretary

(SEAL)

NOTE: Any interested party may request the Commission to reconsider this decision. A motion to reconsider must be filed within ten (10) days. See 38.2.4806, ARM.